October 12, 2007

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Subject: Docket No. R-1286

Dear Ms. Johnson:

Boeing Employees' Credit Union (BECU) appreciates the opportunity to provide comments on the proposed changes to Regulation Z, which implements the Truth-in-Lending Act. BECU is a state-chartered, federally insured credit union with assets of $7.5 billion and a membership base of over 500,000.

The open-end lending process is tailor made to support the remote lending that consumers need today. It would be a loss to consumers to destroy the open-end multi-featured loan program because of entities that have abused the law for big ticket items such as home repairs, air conditioning, satellite dishes, etc., when they have no intention of allowing for future repeated transactions of any kind or to provide additional credit as the consumer pays down the balance.

Credit unions are not these types of entities. We determine how much secured and unsecured credit a member qualifies for (the Plan) and provide separate sub-accounts with different program features and rate structures. While each sub-account itself under the Plan may not be automatically self-replenishing, as the member pays these sub-accounts balances down, the members are entitled to borrow more. The members select the repayment period and based off that information we provide them disclosures for the minimum monthly payments necessary to repay the loan within the period they seek. This is very similar to the minimum monthly payment disclosures that the proposal is seeking to implement as useful disclosures to consumers.

We may require members to provide sufficient collateral to qualify for secured credit and we may verify the collateral from time to time to determine if the borrower continues to qualify for future advances. We believe this program is affirmatively supported by the intent of the Truth-in-Lending Act (TILA) and Regulation Z.

The impact of requiring financial institutions that use open-end, multi-featured loan products to provide additional closed-end disclosures would be greater lending expenses that will have to be passed on to our members. The proposed changes would not allow us to underwrite specific loan transactions under an open-end lending plan. Our member would have to sign documents with every installment loan they obtain. We would be forced to modify our lending practices, thereby losing the convenience and lower cost our members currently receive. Our staff and members would need to be retrained. Additionally, we would need to add staff to accommodate these changes as well as revise all of our documents, disclosures, loan origination and servicing systems.

We have experienced nothing that leads us to believe this change is necessary to protect our members. Our members have had no complaints about our open-end lending program. We hear compliments from members who benefit from the streamlined process that makes our open-end, multi-featured lending program which provides them the ability for repeated transactions. This proposal would be very disruptive to re-engineer our lending program to require a closed-end note to be signed for every transaction.

There are a large number of changes in this proposal. We request that there be a significant period between the time that the final rule is published and the mandatory compliance date. We recommend voluntary compliance after one year and mandatory compliance after 18 months from the date the final rule is published.

We do support a change that would require a 30-day advance notice before changing certain terms of an open-end credit plan. Generally, accounts have a 30-day billing cycle. The proposal requires the change-in-terms to be disclosed on the statement. If the advance notification period is irregular compared to the statement period, such as 45 days, and generally change-in-terms take affect on the first day of the billing cycle, the change would not be able to be put in affect until two billing cycles in the future (60 days). This is a substantial delay between notification and implementation that would not be beneficial to the consumer or creditor.

Home equity lines of credit (HELOC) should not be impacted by this proposal as it is focused on non-real estate loans. However, the HELOC is a revolving credit, multi-featured home equity plan and very different than closed-end installment term loans. We ask that the Federal Reserve Board consider the HELOC under its own unique lending rules and not under closed-end credit rules.

The proposal wants to adopt a rule that any transaction fee on a credit card plan will be a "finance" charge, regardless of whether the issuer in its capacity as a financial institution imposes the same or lesser charge on withdrawal of funds from an asset account. We cannot determine at this stage whether this approach will facilitate compliance and consumer understanding. Regulation Z defines finance charge as the cost of credit as a dollar amount, payable by the consumer as an incident to or as a condition of the extension of credit and does not include any charge of a type payable in a comparable cash transaction. If the credit card transaction fee is a type payable in a comparable cash transaction within a checking and savings account (e.g., foreign/international transaction fee and ATM surcharge fee), we do not believe this proposal meets the intention of Regulation Z by making the credit card transaction fee a finance charge. We foresee more confusion about what is and is not a finance charge in the future and litigation against the creditors. The official staff commentary provides examples of charges in comparable cash transactions that are not "finance" charges. One example is discounts available to a particular group because they meet certain criteria. We request the inclusion of this for an example: "For example, a membership fee to join a credit union is not an "other charge," even if membership is required to apply for credit."

The proposal provides guidance on debt suspension coverage. We have concerns about the separate disclosure and separate signature requirements for each product. We believe that additional guidance is needed, as we fear that these additional requirements may be enough of a burden that to cause us to stop offering such types of products. The proposal exempts telephone sales of credit insurance, debt cancellation, and debt suspension agreements from the requirement to obtain a written signature or initials from the consumer. Audio tapes or other evidence of consent, along with written disclosures that are sent later, would be required in order to provide safeguards. We agree this should be an alternative that is allowed. We do have concerns about the burden of developing the infrastructure to meet the record retention requirements for tapes and other evidence of consent. This may create additional costs that have to be passed on to the consumer.

We believe there are circumstances where creditors should be allowed to provide cost disclosures electronically to consumers who have not affirmatively consented to receive them electronically. Consumers want the ability to arrange for and conduct many transactions remotely and complain at delays or burdens involved in doing so. This would be very beneficial to both the consumer and the creditor.
The FRB has considered a proposal to prohibit the terms "finance charge" and "annual percentage rate" from being disclosed more conspicuously than other required disclosures, except when the regulation so requires. We feel this should remain as it is in the existing regulation. Changing it has the potential to create confusion when or when not to be more conspicuous.

The regulation provides that creditors are currently not required to send a periodic statement if the creditor determines the account is uncollectible, or if delinquency collection proceedings have been instituted, or if furnishing the statement would violate Federal law. We believe the definition of "uncollectible" should be re-defined to when a creditor charges a debt off as a loss. The proposal also clarifies that creditors entering into workout arrangements for delinquent open-end plans without converting the debt to a closed-end transaction comply with the rules if the rules and procedures under the open-end credit provisions are followed. We recommend that additional guidance is needed, such as establishing a safe harbor for when the open-end plan is deemed satisfied and replaced with a closed-end obligation.

Currently, if creditors provide a grace period, they must send statements at least 14 days before the grace period ends. We feel this amount of time should remain at 14 days. Our concern is that if the time period is lengthened, it may become more difficult to comply and force creditors to shorten the grace periods.

For applications and solicitations, a range of rates or a number of specific rates may be listed if the actual rate will depend on the consumer's creditworthiness. We support the existing language which allows creditors to advertise the lowest rate of a range that may apply. As long as this is permitted, we agree that a creditor be allowed to choose to advertise the highest rate that may apply.

The proposal states that creditors must provide a disclosure regarding the amount of credit available after fees or a security deposit that is required for the issuance of the credit is deducted, if the amount is 25% or more of the credit limit. We disagree that this information should be disclosed as it may be encouraging consumers to exceed the established credit limit.

The FRB is proposing to include on its website additional information on credit cards. We feel this could be a great opportunity for the FRB to provide consumers basic and more complex information about how to compare and shop for a credit card based on the needs of that consumer. For example: explain how credit cards work, define credit card terms and consumer impact, educate on how to use credit wisely – including the impact of minimum payments; explain what to avoid in a credit card, balance transfer or credit card checks, etc.

The proposal provides format and disclosure requirements for tables for applications, solicitations and account-opening disclosures. They are similar but not identical. In our opinion it would be less burdensome and easier to comply with if the format and content for all were identical.

The proposal has transactions grouped together by type and fee and interest rate charge totals be located with the transactions on the periodic statement. We believe it is important that financial institutions that provide both deposit and credit to consumers be permitted to send a single periodic statement of account activity for any deposit (non-credit) account and any credit accounts. The credits related to the extensions of credit and credits related to non-credit accounts, such as a deposit account, should not be commingled

but segregated in some clear manner. We do agree with the proposal to eliminate the disclosure of the periodic rate on the periodic statement. We feel having it there does not benefit the consumer.

The proposal will eliminate the requirements under the Bankruptcy Act to provide a warning and a hypothetical example on the credit card statement about the effects of making minimum payments if the creditor provides on the statement the actual number of months it will take for the consumer to repay the actual balance by making the minimum payments. We agree that the actual information can be useful to some consumers, rather than hypothetical examples. However, vendors we use that support our credit card origination and servicing systems have warned us that the changes within this proposal will be burdensome and expensive to develop and implement; costs will be passed onto financial institutions and their consumers. An additional concern is the amount of disclosures being added to the periodic statement. Currently, the required disclosures encompass the entire back side of our statement. Additional disclosures will increase the size of our statements and the costs involved.

The proposal will require the maintenance of a toll-free telephone number that will provide generic repayment estimates based on the minimum payment formula that applies to most of the issuer's accounts. We believe more guidance is needed. Our concern is that the estimates may be too complicated and have the unintended consequence of confusing or misleading consumers.

The proposal will require disclosure of the actual interest rate and fees that will apply for credit card checks. The vendors we use that support our loan origination and servicing systems have informed us that the changes within this proposal will be burdensome to develop and implement. However, we think as long as the disclosure is not overwhelming, we would prefer to provide it with the checks rather than burdening our members with having to contact us to obtain this information.

The proposal clarifies that if a cardholder gives a credit card to another person and that person exceeds the given authority, the cardholder will be liable for the transactions unless the cardholder notifies the creditor that the use of the card is no longer authorized. We believe that the clarification about the cardholder's liability for excess transactions by authorized third parties is needed. Including examples of robbery or fraud are not necessary as these would be covered under the current interpretation of "unauthorized use." We also feel that the maximum consumer liability of $50 should be reviewed by the FRB. The amount is so small that there is little incentive or repercussions for consumers to contact creditors to inform them promptly of lost, stolen or unauthorized use of their credit card. Creditors take massive losses due to consumer delays in notification.

Currently, TILA prohibits card issuers from taking any action to offset the cardholder's credit card indebtedness against the funds that the cardholder has on deposit. Card issuers may obtain a consensual security interest in these funds on deposit if the consumer agrees and it is disclosed in the account-opening disclosures. We would appreciate the FRB providing model language and further guidance regarding this.

Currently, card issuers may not deduct a disputed amount from a deposit account held by the issuer. The proposal would extend this to automatic deductions from the deposit account in which the consumer has enrolled in the issuer's automatic payment plan. We believe that if the consumer has authorized us to pay the bill automatically from his/her deposit account, the consumer should request to stop the payment on any amount he/she thinks is wrong, rather than making it the financial institution's responsibility to decide this action for the consumer. Additionally, we suggest this be added to the billing rights statement with a note that in order to stop the payment, the consumer's request to cancel the automatic payment transfer must reach the financial institution at least three business days before the automatic payment is scheduled to occur.

Vendors we use to support our loan origination and servicing systems have informed us that the changes within this proposal will be hugely burdensome and expensive to develop and implement. We will be forced to deconstruct our lending programs and rebuild new ones. This does not take into account the training costs, additional staff and re-educating our members. We ask that the final regulation not destroy financial institutions' ability to provide the open-end multi-featured loan program to consumers, but to focus on curbing the abuses of those who merely take advantage of the existing regulations to take advantage of consumers.

Additionally, the proposed regulations deal in detail with the FRB's reasoning in proposing this change, but nowhere in that reasoning is specific harm identified, much less a significant one. There is no information about credit union members paying higher rates or anything about purchasing unnecessary financial products. There's nothing about higher default rates or member dissatisfaction. Since there is no identified harm and multi-featured open-end lending are integral to BECU's lending program, we recommend allowing the current definition and process of open-end lending remain as is.

Thank you for allowing us the opportunity to provide comments on this important proposal. We look forward to the outcome.

Sincerely,

Joe Brancucci
Vice President – Product and Delivery Channels and Chief Lending Officer
President – CEO, Prime Alliance Solutions, Inc.